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DEPARTMENT FOR H JOHN REDDY AND PATRICIA BIGGS

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#### Country Overview

1. Costa Rica is a developing country with a per capita income of about U.S. \$4,700 and an unemployment rate of about 6.5 percent. Tourism, manufactured exports, and service industries now far surpass traditional agricultural exports (coffee and bananas) as sources of employment and foreign exchange. With over 700,000 U.S. tourists annually and almost as many from other countries, the tourism industry is flourishing. Relative prosperity has created a larger middle class in Costa Rica than is found in most Latin American countries.

2. Costa Rica has serious economic problems, however, including an unsustainable fiscal deficit, a growing debt burden, high inflation rates, and high domestic interest rates that restrict local business growth. The country's highway system, education, and health care systems have deteriorated over time. The state telecommunications monopoly limits competition. The current administration of Abel Pacheco negotiated and signed the Central American Free Trade Agreement (CAFTA), but President Pacheco remained ambivalent about the agreement and failed to press vigorously for ratification. As a result, Costa Rica is the only CAFTA country that has not yet ratified the agreement.

3. Costa Rica's traditional two-party political system began to erode in 2002 with the emergence of strong third and fourth parties. Unprecedented corruption scandals in 2004 leading to the arrests of two former presidents and the poor performance of outgoing President Abel Pacheco caused the ruling party to fall to fourth place in the 2006 elections. Former President and Nobel Peace Prize laureate Oscar Arias won the election by just one percent, defeating the populist Otton Solis.

#### Peaceful Transitions

4. Costa Rica has enjoyed peaceful transitions of executive leadership via free elections for more than 100 years, with two exceptions: from 1917 to 1919 when Federico Tinoco overthrew and elected government, and from 1948 to 1949, when Jose Figueres Ferrer headed an unelected government junta following a brief civil war. Figueres was subsequently elected in free and fair elections and founded the National Liberation Party, the party of Oscar Arias.

5. The Presidential Inauguration will be held at the National Stadium in western San Jos. Arias will walk to the ceremony from his home six blocks away. The concrete stadium, which seats about 20,000, was built in 1924, rebuilt in 1940, and last refurbished in 1972. Its main use is for amateur soccer. It has also been used for other large open-air events, such as a mass attended by Pope John Paul II, a concert by Luciano Pavarotti, and, since the 1970s,

presidential inaugurations. The stadium is located in a large park called La Sabana, which also contains the Museum of Costa Rican Art and the National Gymnasium. La Sabana was an airport until 1955. President Kennedy landed there in a helicopter during his visit in 1963.

#### Arias's First Term as President

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¶6. Oscar Arias took office in 1986 at age 44, the youngest President in Costa Rica's history. A year later he won the Nobel Peace Prize for his contributions to the Central American peace process. During the 1980s, Arias publicly undercut U.S. policy toward the Sandinista regime, while at the same time working to bring all parties to the negotiating table. The Peace Prize greatly enhanced Arias's popularity at home and burnished his credentials as an international statesman. However, Arias's aloofness limited his ability to work effectively with the Legislative Assembly, and few important laws were approved during his first administration.

¶7. Arias's domestic policy focused on achieving economic stability through reducing inflation, renegotiating debt, and attracting foreign investment. Arias succeeded in slowing inflation, obtained more favorable terms for \$1.6 billion in debt, and provided some low-income housing (though far short of his campaign promise of 80,000 new homes). Unemployment continued to grow, however, and the national debt ballooned to \$4.6 billion. In 1988 Arias declared a year of austerity and pledged no new taxes during his term.

¶8. Sensitive to charges he spent too much effort on international affairs, Arias often claimed that he spent 13 of the 16 hours he worked each day on domestic problems. When critics pointed out that he had accomplished little for such an effort, Arias countered that "the solution to all internal problems is to keep the violence in the rest of the region from crossing our borders."

#### Arias Today

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¶9. Arias will make CAFTA ratification and implementation a high priority for his government. He also wants to increase spending on education and infrastructure. Internationally, Arias will be an advocate for human rights, multilateralism, and disarmament. Although he considers himself a good friend of the United States and tough critic of Fidel Castro and Hugo Chavez, he should be expected to criticize the U.S. on issues such as Iraq, the International Criminal Court, and international aid levels.

¶10. President-elect Arias faces domestic opposition, particularly from public sector unions and university students. Unwillingness to confront this opposition paralyzed Arias's predecessor, Abel Pacheco. Arias's party is the largest block in the incoming Assembly and roughly 2/3 of its 57 members have already stated they support the agreement. Even with this level of support, committee hearings are expected to last through the summer. If the Assembly moves quickly, Costa Rica could ratify CAFTA by December 2006.

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